Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Text

CONFIDENTIAL

PAGE 01 LIMA 07045 01 OF 02 100539Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 PA-01 IO-13 /110 W
----------022930 100541Z /12/14
P 082232Z AUG 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC PRIORITY 1321

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 7045

C O R R E C T E D C O P Y (TEXT PARA 7. CORRECTED)

E.O. 11652: GDS
TAGS: EFIN PE
SUBJ: PERU'S IMF STANDBY

REF: LIMA 6679

1. SUMMARY. A CENTRAL BANK SOURCE HAS PROVIDED IMF STANDBY DOCUMENTS ON A CONFIDENTIAL BASIS. DOCUMENTS CONFIRM BASIC ELEMENTS OF STANDBY PROGRAM REPORTED REFTEL, EXCEPT DISBURSEMENT SCHEDULE SOMEWHAT DIFFERENT. WE DO NOT KNOW IF DOCUMENTS ARE COMPLETELY FINAL. HOWEVER, TELEX FROM THE FUND TO THE CENTRAL BANK INDICATES THAT AGREEMENT IS NEAR AND THAT FUND MANAGEMENT IS PREPARED TO SUPPORT GOP REQUEST FOR STANDBY PROVIDING VARIOUS MINOR REVISIONS IN DOCUMENTS ARE FORWARDED. (DOCUMENTS POUCHED ARA/AND/P-FULLER). END SUMMARY.

2. AMOUNTS OF TRANCHE RELEASES. THE STANDBY ARRANGEMENT PROVIDES SDR 184 MILLION AND IS TO LAST THROUGH 1980. SCHEDULE OF DRAWINGS DIFFERS FROM THAT REPORTED REFTEL. THE FIRST TRANCHE IN AMOUNT OF SDR 12 MILLION IS AVAILABLE UPON SIGNATURE AND THE SECOND TRANCHE OF SDR 12 MILLION IS AVAILABLE ON DECEMBER 10, 1978. THE THIRD TRANCHE OF SDR 20 MILLION IS AVAILABLE ON FEB-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 07045 01 OF 02 100539Z

RURARY 10, 1979. SUBSEQUENTLY EACH ADDITIONAL TRANCHE IN AMOUNT OF SDR 20 MILLION IS AVAILABLE AT THREE-MONTH INTERVALS.

3. THE GOP MEMORANDUM TO THE IMF. THE GOP MEMORANDUM TO THE IMF FOCUSES ON EXCESSIVE EXPANSION OF DOMESTIC DEMAND SINCE 1968 AS THE PRINCIPAL CAUSE OF PERU'S ECONOMIC DIFFICULTIES AND STATES THAT DEMAND WAS SPURRED BY AN OVERLY AMBITIOUS GOVERNMENT INVEST-

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

MENT PROGRAM, EXCESSIVE GROWTH OF SUBSIDIES AND OTHER CURRENT GOVERNMENT OUTLAYS WHILE PUBLIC REVENUES REMAINED STAGNANT. IN SPITE OF MEASURES TAKEN BETWEEN 1975 AND 1977 GOVERNMENT SPENDING CONTINUED TO OUTSTRIP REVENUES. THE IMPORTANCE OF DEBT RESCHEDULING IS RECOGNIZED SPECIFICALLY. THE MEMORANDUM STATES THAT THE GOP IS CURRENTLY SEEKING AN ADDITIONAL ROLL-OVER OF $185 MILLION IN PRIVATE COMMERCIAL DEBT AFTER THE JANUARY 3, 1979 DEADLINE AND A PROGRAM LOAN OF AT LEAST $100 MILLION FROM THE WORLD BANK. IT ALSO NOTES THE NEED TO RESCHEDULE THE BULK OF THE $730 MILLION OF PUBLIC SECTOR MATURITIES FALLING DUE IN 1979.

4. OBJECTIVES OF PROGRAM. OBJECTIVES OF THE TWO AND A HALF YEAR STABILIZATION PROGRAM ARE REVIVAL OF PRODUCTION IN STRATEGIC SECTORS (E.G. EXPORTS, MINING), RESTORATION OF BALANCE OF PAYMENTS EQUILIBRIUM, AND SIGNIFICANT REDUCTION OF INFLATION (IF POSSIBLE, A 50 PERCENT REDUCTION IN 1979 FOLLOWED BY ANOTHER 50 PERCENT DECREASE IN 1980). THE KEY-STONE OF THE ADJUSTMENT PROGRAM IS FISCAL RESTRAINT INCLUDING SIGNIFICANT CUTBACKS IN PUBLIC SPENDING AND DEFICIT FINAN-CING BY THE CENTRAL BANK AND A SHIFT IN PUBLIC EXPENDITURES TOWARD MORE INVESTMENT. (THE DEFICIT OF THE NON-FINANCIAL PUDHIC SECTOR IS SCHEDULED TO DECLINE FROM 6-1/2 PERCENT OF GDP IN 1978 TO LESS THAN 2 PERCENT IN 1979 TO AN EVEN SMALLER RATION IN 1980.)

5. WAGE AND PRICE POLICY. THE MEMORANDUM POINTS OUT THAT THE CONFIDENTIAL

GOVERNMENT BEGAN MORE SEVERE FISCAL RESTRAINT IN MAY BY INCREASING TAXES AND REDUCING SUBSIDIES, AND THAT FURTHER REDUCTION IN CURRENT GOVERNMENT EXPENDITURE IS PLANNED. MOREOVER, THE GOP PLANS TO INSTITUTE MEASURES TO INCREASE TAX REVENUE AND TO KEEP PRICES CHARGED BY STATE ENTERPRISES IN LINE WITH COSTS. FUTURE WAGE INCREASES WILL RECOGNIZE PERU-VIAN ECONOMIC REALITIES, WHILE AT THE SAME TIME PROTECTING THE STANDARD OF LIVING OF LOWEST PAID WORKERS. IMPLEMENTATION OF THESE WAGE-PRICE POLICIES SHOULD REDUCE RECOURSE OF THE PUBLIC SECTOR TO DOMESTIC BANK CREDIT AND PERMIT ADEQUATE FLOWS OF CREDIT TO THE PRIVATE SECTOR.

6. INTEREST RATES AND EXCHANGE RATES. NO SPECIFIC GOALS ARE ENUMERATED FOR INTEREST RATES OR FOR EXCHANGE RATES. HOWEVER, THE MEMORANDUM RECOGNIZES THAT FINANCIAL ASSETS IN PERU SHOULD YIELD A POSITIVE RATE OF RETURN AS SOON AS POSSIBLE. MANAGEMENT OF THE FOREIGN EXCHANGE RATE WILL BE GUIDED BY DOMESTIC PRICE DEVELOPMENTS, INTERNATIONAL RESERVE TARGETS AND THE PURSUIT OF THE "SPEEDIEST POSSIBLE CONVERGENCE" OF THE TWO EXCHANGE MARKETS (OFFICIAL AND CERTIFICATE). THE BASIC MINIMUM FINANCING REQUIREMENT FOR IMPORTS WILL BE GRADUALLY REDUCED, HELPING TO ACHIEVE THE GOAL OF

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

PROMPT AVAILABILITY OF FOREIGN EXCHANGE FOR LEGITI-
MATE ECONOMIC TRANSACTIONS. MOREOVER, NO NEW RESTRICTIONS ON
IMPORTS MAY BE INTRODUCED OR EXISTING ONES INTENSIFIED (E.G.
NON-AUTOMATIC IMPORT LICENSES).

7. SPECIFIC COMPLIANCE TARGETS. THE SPECIFIC COMPLIANCE
TARGETS SET OUT IN THE STANDBY ARRANGEMENT (AND DESCRIBED
IN THE GOP MEMORANDUM) INCLUDE THE FOLLOWING: (1) SPECIFIC
LIMITS ON THE NET DOMESTIC ASSETS OF THE CENTRAL BANK, (2)
SPECIFIC LIMITS ON NET DOMESTIC CREDIT OF THE PERUVIAN
BANKING SYSTEM TO THE PUBLIC SECTOR, (3) SPECIFIC TARGETS
FOR THE NEW INTERNATIONAL RESERVE POSITION OF THE CENTRAL
BANK, (4) LIMITS ON THE CONTRACTING OF NEW CREDITS BY THE
PUBLIC SECTOR, (5) A REQUIRED REDUCTION IN THE BASIC MINIMUM
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LIMA 07045 01 OF 02 100539Z

FINANCING REQUIREMENTS FOR IMPORTS, AND (6) A STRONG PROHI-
BITION AGAINST ANY NEW RESTRICTION ON IMPORTS OR OTHER
RESTRICTIONS ON CURRENT ACCOUNT (B/P) PAYMENTS AND TRANS-
FERS. (COMMENT: THE STANDBY SPECIFIES NET INTERNATIONAL
POSITION TESTS ONLY FOR THE CENTRAL BANK IN CONTRAST TO THE
MORE GLOBAL BANKING SYSTEM NET INTERNATIONAL RESERVE POSITION
OF THE NOVEMBER 1977 STANDBY. THE STANDBY ALSO OMITS TEST
LIMITS ON NET DOMESTIC ASSETS OF THE BANKING SYSTEM AND
PLACES THE TEST ON THE NET DOMESTIC ASSETS OF THE CENTRAL
BANK. THEREFORE, IT IS DIFFICULT FOR US TO ASCERTAIN THE
IMPLICATIONS FOR SUCH ECONOMIC VARIABLES
AS THE TOTAL NET INTERNATIONAL RESERVE POSITION AND BANKING
SYSTEM NET DOMESTIC CREDIT.)

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LIMA 07045 02 OF 02 082254Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 PA-01 IO-13 /110 W
----------005165 082356Z /14
P 082232Z AUG 78
FM AMEMBASSY LIMA

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

TO SECSTATE WASHDC PRIORITY 1322

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 7045

8. TARGETS FOR NET CREDIT TO PUBLIC SECTOR. THE SPECIFIC LIMITS ON NET CREDIT TO THE PUBLIC SECTOR OF THE BANKING SYSTEM ARE AS FOLLOWS: NOVEMBER 15, 1978, S/M271 BILLION; ON MARCH 31, 1979, S/.298 BILLION; ON JUNE 30, 1979, S/.318 BILLION; ON SEPTEMBER 30, 1979, S/.335 BILLION; AND ON DECEMBER 31, 1979, S/.359 BILLION. THESE LIMTS ARE REDUCED BY THE AMOUNT OF ANY CUMULATIVE DISBURSEMENTS OF B/P SUPPORT LOANS TO THE NON-FINANCIAL PUBLIC SECTOR WHICH DO NOT GENERATE AN EQUIVALENT DEPOSIT IN THE CENTRAL BANK. THE LIMTS ON NET DOMESTIC ASSETS OF THE CENTRAL BANK ARE AS FOLLOWS: S/.206 BILLION FOR THE PERIOD JULY 1 TO NOVEMBER 15, 1978, S/.216 BILLION FOR THE PERIOD NOVEMBER 16 TO DECEMBER 31, 1978, AND IN 1979 BY QUARTERS: S/.274 FOR THE FIRST QUARTER, S/.305 BILLION FOR THE SECOND QUARTER S/.371 BILLION FOR THE THIRD QUARTER AND S/.396 BILLION FOR THE FOURTH QUARTER. THOSE LIMITS ARE REDUCED BY ANY CUMULATIVE DISBURSEMENTS OF B/P SUPPORT LOANS TO THE PUBLIC SECTOR.

9. THE NET INTERNATIONAL RESERVE TARGET. THE TARGETS FOR THE NET INTERNATIONAL RESERVE POSITION OF THE CENTRAL BANK ARE AS FOLLOWS: (WITH ALL NUMBERS NEGATIVE): NOVEMBER 15, 1978, DOLS 660 MILLION; MARCH 31, 1979, DOLS 615 MILLION; JUNE 30, 1979, DOLS 587 MILLION; SEPTEMBER 30, 1979, DOLS 534 MILLION; AND DECEMBER 31, 1979, DOLS 513 MILLION. THESE TARGETS ARE SUBJECT CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 07045 02 OF 02 082254Z

TO AN IMPORTANT ADJUSTMENT PROCESS. CERTAIN ASSUMED B/P SUPPORT LOANS ARE INCLUDED IN THE RESERVE TARGETS AND IF SUCH ASSUMED LOANS ARE NOT FORTHCOMING AS ACTUAL LOANS, THE RESERVE TARGET WOULD BE ADJUSTED. FOR EXAMPLE, THE ASSUMED CUMULATIVE DISBURSEMENT OF B/P SUPPORT AND REFINANCING CREDITS FOR DECEMBER 31, 1979 IS DOLS 588MILLION. IF PERU HAD ACTUALLY RECEIVIED ONLY DOLS 400 MILLION IN SUCH CREDITS BY THAT DATE, THE ADJUSTED TARGET WOULD BE DOLS - 701 MILLION, (I.E. NEGATIVE 513 PLUS 400 NEGATIVE 588).

10. RESTRICTIONS ON NEW LOAN CONTRACTS. THE LIMITS ON CONTRACTING NEW EXTERNAL DEBT BY PERU'S NONFINANCIAL PUBLIC SECTOR ARE AS FOLLOWS: DURING THE PERIOD JULY 1, 1978 THROUGH JUNE 30, 1979, DOLS 300 MILLION OF CREDITS OF ONE TO TEN YEAR TERM AND DOLS 135 IN THE ONE TO FIVE YEAR CATEGORY AND FOR THE PERIOD JULY 1, 1978 THROUGH DECEMBER 31, 1979, DOLS 450 MILLION OF CREDITS OF ONE TO TEN YEAR TERM AND DOLS 200 MILLION IN THE ONE TO FIVE YEAR CATEGORY. THESE LIMITS EXCLUDE PROGRAM LOANS, GENERAL PURPOSE BANK CREDITS, AND REFINANCING CREDITS AND EXPORT PREFINANCING CREDITS PROVIDED BY THE IDB OR IBRD AS WELL AS

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

PRIVATE SECTOR EXPORT CREDIT LINES CHANNELED THROUGH
COFIDE OR THE BANCO INDUSTRIAL.

11. REDUCTION IN IMPORT FINANCING REQUIREMENT. THE BASIC
MINIMUM FINANCING REQUIREMENT FOR PRIVATE SECTOR IMPORTS WILL
BE REDUCED FROM 180 DAYS TO NO MORE THAN 150 DAYS BY DECEMBER
31, 1978, TO NO MORE THAN 120 DAYS BY JUNE 30, 1979 AND TO
NO MORE THAN 90 DAYS BY DECEMBER 31, 1979 AND WILL BE
ELIMINATED ALTOGETHER WITHIN 1980.
SHLAUDEMAN

CONFIDENTIAL

NNN

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOCUMENTS, SDR, FINANCIAL AGREEMENTS, IMF DRAWING RIGHTS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LIMA07045
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780345-0136, D780324-1118
Format: TEL
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780888/aaaacvua.tel
Line Count: 234
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f8270467-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 LIMA 6679
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 25 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1806820
Secure: OPEN
Status: NATIVE
Subject: PERU\'S IMF STANDBY
TAGS: EFIN, PE, IMF
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/f8270467-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014